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SIPDIS

SENSITIVE

H FOR CODEL HYDE FROM AMBASSADOR CHARLIE RIES

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SUBJECT: SCENESETTER FOR CODEL HYDE (ATHENS, AUGUST 25-28)

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1. (SBU) Embassy Athens warmly welcomes the August 25-28 visit by CODEL Hyde to Greece. You will arrive just as the summer holidays are winding down, and your visit will provide an excellent opportunity, not only to showcase U.S.-Greece relations, but to kick off the fall quarter with high-level discussions of our top foreign policy priorities. We have arranged a meeting with Foreign Minister Molyviatis, and I will host the delegation at lunch with senior Greek decisionmakers.

2. (U) Looking back, the last three years have been momentous for Greece. In 2002, Greece arrested the key leaders of the domestic terrorist group "17 November" which had terrorized Greece for 25 years, and had made Athens a "critical threat" post for the USG. In 2003, Greece held the EU Presidency at the onset of Operation Iraqi Freedom, and kept the U.S.-EU relationship intact despite deep splits within Europe on relations with the U.S. In 2004, Greece hosted the Summer Olympics, a major terrorist target, without incident. Also in 2004, Turkey's EU membership aspirations were advanced, a Greek strategic objective. In 2005, Greece joined the UNSC as a non-permanent member for the first time since 1952.

3. (SBU) Your visit comes almost a year to the day after the Closing Ceremonies of the Athens 2004 Olympics. Today, however, Greece is facing a burgeoning budget deficit in the aftermath of those highly successful, but very expensive Olympic Games, and Prime Minister Costas Karamanlis has had little time to bask in the afterglow.

#### GREECE AND THE GLOBAL WAR ON TERRORISM

4. (SBU) In Prime Minister Karamanlis's May 20 meeting with the President in Washington, the two leaders affirmed their strategic partnership, and discussed a variety of issues, including democratization in the broader Middle East region, Iraq and Afghanistan.

-- On Iraq, the PM pledged during his campaign not to send troops, however Greece is providing funding for the NATO training mission in Iraq and providing equipment transport.

-- On August 15, a Greek-led multinational medical unit began operations in Kabul, augmenting a Greek contingent of soldiers serving in the International Security Assistance Force in Afghanistan.

-- Greece has offered to host a ministerial meeting on democratization in the Middle East under the auspices of the G-8s Broader Middle East and North Africa initiative.

-- Greece has been helpful on the issue of terrorism financing, but its ability to detect terrorist money, or money laundering in general, is limited. In particular, some smaller banks outside of Athens are still not computerized, making the tracking of money flows difficult.

#### GREECE-TURKEY-CYPRUS

5. (SBU) Although there are unresolved issues between Greece and Turkey -- both still differ on Aegean air/seaspace demarcation and Greece often complains of alleged Turkish air incursions in the Aegean -- Greek-Turkish rapprochement remains the bedrock in their relations. As a result, Greece has been one of Turkey's strongest supporters in the EU because it relates Turkey's EU accession to its own strategic interests. The August 2 statement by French PM de Villepin that Turkey must recognize the Republic of Cyprus before beginning accession negotiations with the EU has put Greece in a difficult position.

6. (SBU) As is the case in many EU member states, public opinion in Greece has not yet embraced Turkey in the EU. The government expects that a Turkish-EU dialogue on accession will contribute positively to stability in the region, while Greek public opinion shows that many Greeks, like their EU

counterparts, have concerns about adding a large Muslim country to the EU family.

17. (SBU) The Cyprus issue has been stymied since the Greek Cypriots rejected UNSYG Annan's plan to reunify the island in the April 2004 referendum (Turkish-Cypriots accepted the Plan in the same referendum). While Athens quietly backed the Annan Plan, the Greek Government also felt it should stand by the Government of Cyprus and the vote of the Greek Cypriots. At present, UNSYG Annan does not feel there is sufficient grounds for restarting the negotiating process. On the island, the Turkish Cypriot community has been concerned to break out of its isolation, while the Greek Cypriot government has been quick to oppose direct trade or transportation links which could imply recognition.

#### BALKANS

18. (SBU) Southeast Europe is a tough neighborhood, with the countries of the ex-Yugoslavia struggling to move beyond the wars that wracked the Balkans in the 90s. As the only country in the region that is a member of both NATO and the EU, Greece sees itself as a natural leader to assist the region's Euro-Atlantic integration. We strongly support this endeavor and would like to see Greece play an even more active role, including re-energizing its 550 million-euro Balkan assistance program.

19. (SBU) One issue that Foreign Minister Molyviatis will be sure to raise is the Macedonia name issue. Following the breakup of Yugoslavia, Greece and Macedonia in 1995 agreed on "Former Yugoslav Republic of Macedonia" as an interim name until the two countries could decide on a mutually acceptable solution. Last year's USG decision to recognize the Republic of Macedonia by its constitutional name touched off a storm of controversy in Greece. Many Greeks saw our decision as a deliberate snub and the explanation that we took this action to help defeat a referendum in Macedonia that could have split the country and de-stabilized the Balkans did not convince many here. In the aftermath, FM Molyviatis has asked the USG to publicly support the UN negotiations and accept whatever solution Athens and Skopje agree upon. We have done so and continue to strongly support the UN-led negotiations. On the surface, the issue seems to be wholly semantical, but to both sides it strikes deep chords of nationalism and historical destiny. Macedonia strives to join NATO and the EU, and to do so, must come to terms on the name of the country that will enter. Greece needs an acceptable compromise from the Macedonians; otherwise, the decision on Macedonia's NATO/EU entry would be unlikely to clear Parliament and may end up in a referendum.

#### DOMESTIC TERRORISM

10. (SBU) The USG assisted in all aspects of Olympics security, and this close cooperation with the Greek Government has paid dividends in other security fields, such as the Container Security Initiative (CSI). Along with our allies and friends, we heartily congratulated Greece for presiding over a safe and secure Games and funding the necessary security commitments.

11. (SBU) We continue to be concerned about domestic terrorism in Greece. Greece made big strides by convicting key members of the infamous 17 November terrorist group, responsible for killing many Greeks and six Embassy employees (5 Americans and 1 Greek) over the course of its bloody, 25-year history. The same is true regarding prosecution of members of another domestic terrorist group, Peoples' Revolutionary Struggle (ELA), which, in past years, had bombed nightclubs frequented by U.S. servicemen.

12. (SBU) We are concerned that the December 2004 brutal assassination of a Greek police officer guarding the residence of the British army attache may represent the emergence of a follow-on terrorist group. We have also been concerned by the release of two convicted members of 17N and ELA (on medical grounds), believing this sends the wrong signal about Greece's commitment to the war on terrorism. Finally, more needs to be done to crack down on anarchists who use homemade bombs to attack targets like Citibank ATMs and political party offices. We have an excellent dialogue with the GoG on these matters.

#### BILATERAL ISSUES: TIP, FMS, VWP

13. (SBU) Our bilateral relationship runs the gamut from commercial to military matters, and is enriched by the large Greek-American community in the U.S. and the estimated 100,000 Americans, many of them dual citizens, living in Greece.

-- TRAFFICKING IN PERSONS: The congressionally-mandated TIP report, with its different tiers of countries (Greece is currently on the Tier 2 Watchlist, a designation for problem countries), has been the key tool in getting Greek government

attention. Greece had made some progress in recent years, but can do more in some major areas, including treating trafficked women as victims (not criminals), more vigorously prosecuting traffickers and keeping statistics on TIP-related convictions.

-- FOREIGN MILITARY SALES: On July 20 Greece announced it would purchase thirty F-16s via the Foreign Military Sales program, with an option to purchase 10 more. This purchase has raised a loud, continuing debate in Greece about the merits of the F-16 vs. the Eurofighter. The Greek decision was the Air Force's choice, mainly because F-16s are less expensive and easier to integrate with existing planes. We also welcome the vote of confidence in the defense relationship with the U.S..

-- VISA WAIVER PROGRAM: In June 1998 the Department of State notified the Department of Justice of its intention to nominate Greece for membership in the Visa Waiver Program (VWP). The Attorney General approved Greece for inclusion in the VWP in May 1999 subject to three criteria: (1) full membership in the Schengen border security regime; (2) resolution of reciprocal 90-day duration of stay in Greece for U.S. citizens; and (3) improvements in passport issuance procedures and control of blank passports. Greece has met the first two and is working on the third requirement. Greece has announced it will begin issuance of its new biometric passport in March/April 2006.

#### ECONOMICS

14. (U) Greece leads the EU in excessive debt (116% of GDP) and deficit (6.7% of GDP), and Karamanlis faces tough choices in order to bring them under control. GDP growth will be less this year, due in part to the end of construction projects related to last year's Olympic Games, which means the GoG must increase revenues or cut expenditures to meet EC-imposed deficit targets. For years, Greece has had trade and current account deficits, compounded by declining competitiveness. At mid-year, tax increases have not met revenue goals, raising the specter of cutting social expenditures; a task sure to prove unpopular. The government must also confront the task of making Greece's economy more competitive by privatizing inefficient state industries and attracting foreign investment, while minimizing structural dislocation.

15. (SBU) None of these reforms will be easy, given that inflationary pressure from rising health care and pension costs are expected to exceed those of any other EU member and a strong euro continues to weaken already lackluster Greek exports. GDP growth in 2004 was 4.2 percent, buoyed by both construction and consumption during the Olympic period, but is forecast from 2.7 to 3.4 percent in 2005-06. Unemployment averaged 10.5 percent in 2004, although it hit a first quarter peak of 11.3 percent. Consumer price inflation rose by 3 percent in 2004, well above the 2.1 percent European average. 2005 forecasts set inflation at 3.6 percent.

#### PUBLIC OPINION

16. (SBU) A word on Greek public opinion and the media. You may have heard about strong anti-American feeling in Greece. It does exist in a general sense, directed at official American policies, but almost never translates into harsh treatment of Americans on a personal level. It reflects grievances over our perceived historical favoritism toward Turkey, American support for the former Greek military junta, the situation in Cyprus, our actions in Iraq, and, most recently, our policy to recognize Macedonia by its constitutional name, which, as noted earlier, many Greeks saw as a challenge to their national identity. Polls bear this out: some 93 percent of Greeks opposed the war in Iraq and a large majority (80 percent) believe the U.S. plays a negative role in the global war on terrorism. Some media outlets hype this sort of feeling, broadcasting violent images from Iraq and playing up any perceived slight against Greek interests by the United States.

17. (SBU) At the same time, there are signs of change. Per capita, Greeks make up the largest percentage of foreign students in the U.S. of any EU country. Many Greek elites have a nuanced and balanced view gained from years in the U.S. or from working closely with Americans in business or multilateral institutions. Your visit is part of the normal high-level exchange between our two countries.

18. (U) Again, I look forward to your visit and a productive and pleasant stay in Athens.

RIES